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Photo
Engravers
&
Electrotypers
Limited

Annual
Report
1977

Photo Engravers & Electrotypers Limited

Directors and Officers

J. R. SHAW, *President*

JAMES M. TORY, Q.C., *Vice-President*

ALEX CAMPBELL

JOHN S. DINNICK

GORDON R. GILLIES

DOUGLAS J. PEACHER

D. S. PORTER, C.A., *Secretary and Treasurer*

AUDITORS, *Clarkson, Gordon & Co.*

SOLICITORS, *Tory, Tory, DesLauriers & Binnington*

BANKER, *The Bank of Nova Scotia*

TRANSFER AGENT, *National Trust Company, Limited*

REGISTRAR, *Crown Trust Company*

HEAD OFFICE and PLANT, 2250 Islington Ave., Rexdale, Ontario M9W 3W4

Photo Engravers & Electrotypers Limited

Financial Highlights

EARNINGS	1977	1976
Sales - - - - -	\$17,385,899	\$14,150,930
Depreciation - - - - -	745,626	625,006
Income taxes - - - - -	645,000	539,000
Net earnings - - - - -	994,577	745,674
Net earnings per share - - - - -	5.47	4.10
Dividends paid - - - - -	398,252	370,974
Dividends paid per share - - - - -	2.19	2.04
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BALANCE SHEET		
Additions to fixed assets - - - - -	\$ 443,332	\$ 525,823
Shareholders' equity - - - - -	6,642,811	6,046,486
Shareholders' equity per share - - - - -	36.53	33.25
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Photo Engravers & Electrotypers Limited

Directors' Report to the Shareholders

Your directors are pleased to submit the annual report of the Company for 1977, together with the financial statements and accompanying auditors' report.

SALES AND EARNINGS In 1977, sales amounted to \$17,385,899 compared with \$14,150,930 in 1976. After meeting all charges, including a provision of \$745,626 for depreciation of plant and equipment, and a provision of \$645,000 for income taxes, there remained earnings of \$994,577 or \$5.47 per share compared with \$745,674 or \$4.10 per share for the previous year.

The improvement in earnings resulted from increased sales in 1977 compared to 1976. Further, the 1976 earnings were adversely affected through loss of sales and increased expenses because of a ten week strike by our printing pressmen and paperhandlers during the second quarter. Earnings for 1977 also reflect income tax reductions for the inventory allowance provided by the federal and provincial governments.

DIVIDENDS Quarterly dividends of 54 cents per share were paid March 1, June 1 and September 1, 1977 while a quarterly dividend of 57 cents per share was paid December 1, 1977, making a total distribution to shareholders of \$2.19 per share or \$398,252 for the year compared with a total payment of \$2.04 per share or \$370,974 in 1976.

PLANT EXPANSION AND FINANCING ARRANGEMENTS In order to meet the requirements of our customers, your Board of Directors has approved an expansion programme for the purchase of additional printing press equipment and an extension to our present building. This

expansion programme is estimated to cost approximately \$10,400,000 plus interest and is expected to be completed during the second half of 1980.

A line of credit has been arranged with the Company's Banker to provide funds not available from operations for this programme.

EARNINGS EMPLOYED IN THE BUSINESS As at December 31, 1977 earnings employed in the business amounted to \$5,748,282 compared to \$5,151,957 last year.

SHAREHOLDERS' EQUITY Total shareholders' equity amounted to \$6,642,811 equal to \$36.53 per share, compared with \$6,046,486 or \$33.25 per share a year ago.

ANTI-INFLATION ACT The Company is subject to and is in compliance with the terms and provisions of the Act that have been in effect since October 14, 1975 and will continue such compliance throughout its 1978 year. The dividend increase of 6% paid on December 1, 1977 is in accordance therewith.

We expect a marginal increase in sales during 1978 as compared with 1977.

We extend sincere appreciation to our employees who contributed so much to the high standards of quality and service to our customers.

On behalf of the Board,


President.

Toronto, Canada,
January 31, 1978.

Photo Engravers &

(Incorporated under the laws of the State of New York)

BALANCE SHEET

December 31, 1977

(with comparative figures for 1976)

ASSETS

	1977	1976
CURRENT:		
Cash - - - - -	\$ 463,305	\$ 49,198
Accounts receivable - - - - -	522,727	458,808
Portion of notes due within one year under Employees' Stock Purchase Plan (note 4) - - - - -	10,940	10,940
Inventories (note 2) - - - - -	1,250,127	1,244,328
TOTAL CURRENT ASSETS - - - - -	2,247,099	1,763,274
FIXED—at cost (note 3):		
Land and roadways - - - - -	171,963	171,963
Buildings - - - - -	4,612,941	4,614,327
Machinery and equipment - - - - -	11,823,200	11,447,122
	16,608,104	16,233,412
Less accumulated depreciation - - - - -	8,199,861	7,503,178
	8,408,243	8,730,234
NON-CURRENT:		
Notes due under Employees' Stock Purchase Plan (note 4) - - - - -	32,818	43,758
	<u>\$10,688,160</u>	<u>\$10,537,266</u>

(See accompanying notes)

On behalf of the Board:

J. R. SHAW, *Director*

J. M. TORY, *Director*

Electrotypers Limited

(Canada Corporations Act)

BALANCE SHEET

As at December 31, 1977

(at December 31, 1976)

LIABILITIES AND SHAREHOLDERS' EQUITY

	1977	1976
CURRENT:		
Accounts payable and accrued charges - - - - -	\$ 859,208	\$ 1,005,740
Income and other taxes payable - - - - -	844,141	459,040
Portion of term bank loan due within one year - - - - -		500,000
TOTAL CURRENT LIABILITIES - - - - -	1,703,349	1,964,780
TERM BANK LOAN - - - - -		150,000
DEFERRED INCOME TAXES - - - - -	2,342,000	2,376,000
	4,045,349	4,490,780
SHAREHOLDERS' EQUITY:		
Capital stock—		
Authorized:		
250,000 shares, no par value		
Issued:		
181,850 shares - - - - -	894,529	894,529
Earnings employed in the business - - - - -	5,748,282	5,151,957
	6,642,811	6,046,486
	\$10,688,160	\$10,537,266

(financial statements)

Auditors' Report

To the Shareholders of
PHOTO ENGRAVERS & ELECTROTYPERS LIMITED:

We have examined the balance sheet of Photo Engravers & Electrotypers Limited as at December 31, 1977 and the statements of earnings and earnings employed in the business and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company as at December 31, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
January 17, 1978.

Clarkson, Gordon & Co.
Chartered Accountants

Photo Engravers & Electrotypers Limited

Statement of Earnings and Earnings Employed in the Business

Year Ended December 31, 1977

(with comparative figures for the year 1976)

	1977	1976
SALES (note 6) - - - - -	\$17,385,899	\$14,150,930
COST OF SALES and all expenses, except the items noted below - -	14,345,949	11,405,719
Administrative and general expenses - - - - -	577,865	627,493
Provision for depreciation - - - - -	745,626	625,006
Interest expense on term bank loan - - - - -	6,879	108,399
Interest expense on current bank loan - - - - -	70,003	99,639
	15,746,322	12,866,256
EARNINGS BEFORE PROVISION FOR INCOME TAXES - - - - -	1,639,577	1,284,674
Provision for income taxes (note 7) - - - - -	645,000	539,000
EARNINGS FOR THE YEAR* - - - - -	994,577	745,674
EARNINGS EMPLOYED IN BUSINESS, BEGINNING OF YEAR - - -	5,151,957	4,777,257
	6,146,534	5,522,931
Less dividends paid (1977—\$2.19 per share; 1976—\$2.04 per share)	398,252	370,974
EARNINGS EMPLOYED IN BUSINESS, END OF YEAR- - - - -	\$ 5,748,282	\$ 5,151,957
*EARNINGS PER SHARE - - - - -	\$5.47	\$4.10

(See accompanying notes to financial statements)

Photo Engravers & Electrotypers Limited

Statement of Changes in Financial Position

Year Ended December 31, 1977

(with comparative figures for the year 1976)

WORKING CAPITAL WAS PROVIDED BY:	1977	1976
Operations* - - - - -	\$1,683,443	\$1,504,420
Proceeds from sale of fixed assets - - - - -	12,457	12,424
Repayment of notes due under Employees' Stock Purchase Plan -	10,940	10,940
Reclassification, from current to deferred, of income taxes provided in prior years - - - - -	30,000	
	<u>1,736,840</u>	<u>1,527,784</u>
WORKING CAPITAL WAS USED FOR:		
Additions to fixed assets (net of investment tax credit of \$4,810 in 1977) - - - - -	443,332	525,823
Reduction in term bank loan - - - - -	150,000	500,000
Dividends - - - - -	398,252	370,974
	<u>991,584</u>	<u>1,396,797</u>
INCREASE IN WORKING CAPITAL - - - - -	745,256	130,987
WORKING CAPITAL (DEFICIENCY), BEGINNING OF YEAR - - - - -	(201,506)	(332,493)
WORKING CAPITAL (DEFICIENCY), END OF YEAR - - - - -	<u>\$ 543,750</u>	<u>\$ (201,506)</u>
CHANGES IN COMPONENTS OF WORKING CAPITAL:		
Increase (decrease) in current assets—		
Cash - - - - -	\$ 414,107	\$ 17,864
Accounts receivable - - - - -	63,919	53,973
Portion of notes due within one year under Employees' Stock Purchase Plan - - - - -		(12,096)
Inventories - - - - -	5,799	(196,777)
	<u>483,825</u>	<u>(137,036)</u>
Increase (decrease) in current liabilities—		
Operating bank loan - - - - -		(120,000)
Accounts payable and accrued charges - - - - -	(146,532)	(3,009)
Income and other taxes payable - - - - -	385,101	(145,014)
Portion of term bank loan due within one year - - - - -	(500,000)	
	<u>(261,431)</u>	<u>(268,023)</u>
INCREASE IN WORKING CAPITAL - - - - -	<u>\$ 745,256</u>	<u>\$ 130,987</u>

*Net earnings adjusted for charges or credits which do not affect working capital.

(See accompanying notes to financial statements)

Photo Engravers & Electrotypers Limited

Notes to Financial Statements

December 31, 1977

1. SIGNIFICANT ACCOUNTING POLICIES

Inventories—

Inventories of work in process are valued at the lower of cost, less progress advances received, and net realizable value. Other inventories are valued at the lower of cost, applied on a first-in, first-out basis, and market value determined on the basis of replacement cost.

Depreciation—

Charges are made against earnings for depreciation of investment in buildings, machinery and equipment based on the estimated remaining useful lives of the assets using the straight-line method. The rates of depreciation are generally 2½% for buildings and roadways and 6½% for machinery and equipment.

Income taxes—

The Company provides for income taxes on the tax allocation basis whereby the provision for income taxes each year is computed on the basis of the depreciation and other charges reflected in the statement of earnings rather than the related amounts claimed as deductions in the Company's tax return.

2. INVENTORIES

Inventories consist of the following:

	1977	1976
Work in process (less progress advances of \$2,004,000 in 1977 and \$1,819,000 in 1976) - - - - -	\$1,020,219	\$1,011,081
Other materials and supplies - - - - -	229,908	233,247
	<u>\$1,250,127</u>	<u>\$1,244,328</u>

3. EXPANSION PROGRAMME

In October 1977, the directors authorized an expansion programme which includes the purchase of additional press equipment and the expansion of the present building. This expansion programme is estimated to cost approximately \$10,400,000 and is expected to be completed during the second half of 1980. At December 31, 1977, commitments under this programme amounted to \$2,626,500 of which \$252,000 had been expended to that date.

A line of credit has been arranged with the bank to provide funds not available from operations to meet these expenditures. At December 31, 1977, this line of credit had not been utilized.

4. EMPLOYEES' STOCK PURCHASE PLANS

In 1971, officers and senior management of the Company subscribed for and purchased shares of the Company under an Employees' Stock Purchase Plan. The shares were issued at the current market price on the day prior to the subscription date, for consideration in the form of non-interest bearing promissory notes. These notes are secured by a pledge of shares of the Company and are due in equal annual instalments over ten years from the date of issue.

5. PENSION PLANS

The majority of the Company's employees are covered by retirement plans. The amount charged to income in 1977 (including amounts paid to the government pension plan) was \$239,600 (\$207,000 in 1976), which amounts included amortization of prior service costs. Based on an actuarial valuation as at December 31, 1974 the unfunded prior service pension costs at December 31, 1977 were estimated to total \$228,000 (\$243,000 in 1976) (approximately equal to the value of the unfunded vested benefits at that date) and these will be charged to operations on a straight-line basis over the next twelve years.

6. SALES TO MAJOR CUSTOMER

Significantly more than one-half of the Company's sales are made to Simpsons-Sears Limited pursuant to a long-term contract extending through 1978.

7. INCOME TAXES

The provision for income taxes consists of:

	1977	1976
Current- - - - -	\$709,000	\$401,000
Deferred - - - - -	(64,000)	138,000
	<u>\$645,000</u>	<u>\$539,000</u>

The 1977 provision reflects a reduction of \$38,600 for the 3% inventory allowance.

8. REMUNERATION OF DIRECTORS AND OFFICERS

The aggregate remuneration in 1977 of the Company's six directors, as directors, was \$5,000 (\$5,100 in 1976). The aggregate remuneration in 1977 of the Company's three officers, as officers, was \$121,500 (\$176,100 in 1976). Two directors were also officers of the Company during 1977.

9. ANTI-INFLATION PROGRAM

Under the federal government's anti-inflation program (which will continue in force until December 31, 1978) the Company is subject to mandatory compliance with legislation which controls prices, profit margins, employee compensation and shareholder dividends. Under the present guidelines dividends to the Company's shareholders during the year ending October 13, 1978 may not exceed \$2.28 per share. Management is of the opinion that the Company is in compliance with the requirements of the anti-inflation legislation.

Photo Engravers & Electrotypers Limited

Ten Years' Review

Earnings

Year	Sales	Provision for Depreciation	Earnings Before Income Taxes	Net Earnings	Net Earnings Per Share	Dividends Per Share
1968	\$ 6,495,118	\$360,111	\$ 608,186	\$293,486	\$1.68	\$.80
1969	7,347,776	501,444	691,336	323,736	1.85	.86
1970	8,228,668	486,597	690,195	327,195	1.87	.92
1971	8,461,994	504,362	834,293	422,793	2.35	.97
1972	8,748,533	507,528	849,639	443,639	2.44	1.12
1973	10,335,867	533,012	1,026,926	587,926	3.23	1.20
1974	13,953,318	642,619	1,398,973	815,973	4.49	1.60
1975	14,333,811	649,901	1,435,793	840,793	4.62	2.00
1976	14,150,930	625,006	1,284,674	745,674	4.10	2.04
1977	17,385,899	745,626	1,639,577	994,577	5.47	2.19

Balance Sheet

Year	Working Capital (Deficiency)	Plant and Equipment at Cost	Plant and Equipment After Depreciation	Long Term Debt Term Bank Loan	Shareholders' Equity	Shareholders' Equity Per Share
1968	\$(611,244)	\$ 9,477,706	\$5,738,084	\$ 712,000	\$3,359,577	\$19.20
1969	(539,181)	10,633,676	6,399,648	1,144,000	3,532,813	20.19
1970	(991,492)	12,068,972	7,435,020	1,410,000	3,699,008	21.14
1971	(859,653)	12,261,782	7,131,953	920,000	4,060,007	22.33
1972	(479,522)	12,800,280	7,172,788	1,000,000	4,299,974	23.65
1973	(954,589)	14,710,330	9,042,960	1,650,000	4,669,680	25.68
1974	(212,940)	14,911,097	8,631,722	1,150,000	5,194,693	28.57
1975	(332,493)	15,754,564	8,837,582	650,000	5,671,786	31.19
1976	(201,506)	16,233,412	8,730,234	150,000	6,046,486	33.25
1977	543,750	16,608,104	8,408,243		6,642,811	36.53



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